

## REDFLOW ANNUAL GENERAL MEETING

FRIDAY 25 NOVEMBER 2016

### CHIEF EXECUTIVE OFFICER / EXECUTIVE CHAIRMAN REPORT

Good morning ladies and gentlemen and welcome.

This has been a year of important achievements for Redflow Limited.

As the makers of a genuinely new and unique product, we continue to face a variety of genuinely new and unique challenges. From materials science through to the development of new manufacturing techniques, a great deal of what is required to bring our product to market requires significant innovation. This necessarily involves the management of a variety of execution risks.

A key management change has occurred with the departure of Stuart Smith as CEO of Redflow. We want to thank Stuart for four years of hard work in steering the company through a period of enormous change. With that departure, I have now assumed the role of CEO in addition to my existing title of Executive Chairman.

I would like to welcome Mr Richard Aird to his return to the executive ranks as Redflow COO, a position he previously held at Redflow until 2012. He brings to this role a wealth of relevant experience and relationships. I believe that his presence in that role at this time is key and critical in maximising our chances of business success.

With those changes comes an opportunity to engage in a strategic review of the operations, management, strategy, and financial modelling that underpins the future of the company. We are undertaking that review process in consultation with internal and external parties and we will be seeking advice and assistance from a variety of sources as we progress with that work.

Richard and I have recently returned from a trip to the USA and Mexico to meet with senior staff at Flex, our contract manufacturer, and this has been an excellent learning experience and relationship building experience for us both. We are encouraged by the support and engagement of Flex toward our shared desire to see continued success in the manufacture of our product in their facilities.

#### **Market segment evolution**

We sell our ZBM energy modules at wholesale to system integrators who include them in their retail energy systems.

Recent new product announcements from a very well known industry participant – Tesla – have led to the potential, in my view, for the residential market to break into two distinct categories over time.

One market will, I expect, contain a small number of large vertically integrated energy services providers, such as Tesla, each providing a single end-to-end solution in very much the style undertaken by Apple in its relevant markets.

The other marketplace will be a diverse and inclusive one containing a number of smaller, “horizontally segmented” market participants (battery vendors, inverter/charger vendors, renewable energy generators, energy control technology companies, etc) working in a more complex and flexible ecosystem.

Each of those participants in that 'horizontal' market (such as Redflow) will offer a key component of end-to-end energy systems, with an emphasis on inter-operability between these participants to maximise the opportunity for all concerned. I believe that both of these markets are set to see huge growth.

This market evolution presents both challenges and opportunities. In the wake of recent Tesla product announcements, Redflow has seen *increased* engagement from other horizontally segmented industry participants who (like Redflow) focus on specific parts of the overall end-to-end marketplace and who (like Redflow) are very keen to achieve the maximum possible cross-product compatibility in this emerging market space. I see this as a very good sign.

If you are interested in further thoughts on this topic, I commend to you a blog post I wrote on the topic recently, that can be viewed here:

<https://simonhackett.com/2016/10/31/apple-android-battery-storage/>

Of course, Redflow is not merely a residential energy storage participant. Our origins are in the telecommunications, commercial and industrial realms, and residential energy storage under our ZCell brand is merely an additional market segment that adds to those existing market opportunities for our company.

The residential market also provides a key opportunity for us to demonstrate the effectiveness of our products, and to build a visible track record, in a new market where the decision cycle is far shorter than is typically the case in our traditional market segments.

On a related note, Redflow has been successful in becoming a well known name in the energy storage market as a result of its successful ZCell product launch combined with a number of visible 'thought leadership' exercises that we have undertaken in various fora over this past year.

## **Manufacturing**

We have achieved a key milestone with the initiation of full battery production on a turnkey basis with Flex. Reaching this milestone took far longer than we had originally hoped, due in the main to our relentless focus on product quality and consistency in the manufacturing process for our complex product at this very formative time in our history.

For the current quarter this year and the first quarter of next year, we are maintaining production at a modest and stable rate with Flex. We are unashamedly focusing on quality and a consistency in production at this time, as a priority over initiating a production rate ramp, because the downside risk of scaling up aggressively ahead of proving the absolute performance and quality of our products are substantial. We will determine an appropriate production ramping approach with Flex once we establish a continued and positive track record of execution over this period.

## **Continued ZBM product development**

We are, naturally, continuing to work on the next product iteration of our ZBM concurrently with having Flex build our current product. This form of continuous improvement is entirely normal for any technology based manufacturing company.

We are intending that this next product iteration will use improved manufacturing processes and will have a greater emphasis on production automation, in order to drive a lower manufacturing cost and a highly scalable production framework for that future product.

Our intention is to continue to undertake new product development work here in Australia, before deciding on the spread of manufacturing locations that will be the most appropriate for putting that new product into the market in due course.

## **Sales**

The key test for any company with a new product and commercial aspirations is to demonstrate that it can convince a customer to part with their money and buy it!

A year ago that was milestone was still largely eluding Redflow, for a variety of reasons. Those reasons were identified at the last AGM and they have now been substantially solved.

It has been pleasing as a result to see positive sales outcomes starting to occur for Redflow, commencing with the receipt of a substantial initial order from one of our key ZCell installation partners, Standard Solar Pty Ltd, for 48 of our ZCell battery bundles (and with the first 16 batteries against that order being delivered this week).

With the sale of further systems to other ZCell installers, and other sales into our traditional market segments also starting to occur (as exemplified in the case studies contained in today's market update) we have shown (at last) that our batteries are *real* things that *real* customers will *buy*.

## **Summary**

At the last AGM, we identified our key drivers as follows:

1. Increasing sales and managing production to the sales rate as closely as possible;
2. Expanding our addressable markets via the release of a packaged residential solution;
3. Meeting our ease of use goals to ensure a smooth sales and integration process; and
4. Undertaking continued product development and optimisation to deliver further improvements in cost, energy density and longevity.

We have had considerable success in this past year in addressing items 1, 2, and 3 in that list.

We have not progressed as far with item 4 as we would have liked, as the internal resourcing imperatives of completing the full outsourcing of our product to Flex in a successful manner have necessarily taken precedence. This is a simple exercise of "walking before one starts to run".

Now that we *do* have batteries coming out of the production facility at Flex, and now that they are being installed into the energy systems of paying customers, we are in a position to re-focus and re-commit to this critical item over the coming period, along with the other key drivers identified in the market update we have released today.

I would like to thank my board for their continued support during this interesting year. I would again like to thank Richard Aird, especially, for being kind enough to roll up his sleeves and to join me in what is very much a shared effort to help to steer Redflow and its team of hard-working staff toward continued successes in 2017.



**Simon Hackett**

Executive Chairman and Chief Executive Officer